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SUBJECT: NIGERIA: 2008 BUDGET SHIFT TO INFRASTRUCTURE

REF: A. ABUJA 1793
[1](#)B. ABUJA 1907
[1](#)C. ABUJA 2227

[1](#)1. (U) Summary: President Umar Musa Yar'adua presented to the National Assembly (NA) his 2008 federal government budget of \$21.11 billion (2.47 trillion naira - exchange rate of 117 naira to one dollar) on November 8. The 2008 budget is a 6.5% increase from 2007 budget. The 2008 budget is nearly identical to the draft budget reported in reftel C, except for the crude oil production increase to 2.45 million barrels per day (MBPD), Joint Venture Cash Calls of \$4.97 billion, and GDP growth rate target increase from 10% to 11%. Special emphasis has been placed on infrastructure, security, Niger Delta, education, and power. The GON also approved a cap on the Excess Crude Account at \$8 billion from 2008. President Yar'adua expects the budget to accelerate physical and human infrastructure for wealth creation and poverty reduction. He also announced approval of the Fiscal Responsibility Bill and that he would push state governments to support and adopt the Fiscal Responsibility Bill and institutionalize fiscal discipline. Some legislators have called for an oil reference price higher than the \$54 proposed in the budget. End Summary.

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President's Vision

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[1](#)2. (U) President Yar'adua declared the 2008 budget goal to "accelerate the provision of basic infrastructure to improve the quality of life of our people. It is about creating jobs and the enabling environment for the private sector to thrive". The budget was prepared within the context of a Medium-Term Fiscal Framework for 2008 - 2010 period. He stated that the budget will consolidate macroeconomic success, budgetary reforms, and fiscal responsibility from the previous administration, and give priority to improving physical infrastructure, with an emphasis on the Niger Delta, power, transportation, human capital development, and social safety nets. The President stressed that the budget will focus on the completion of on-going projects and initiate only "a few new projects targeted at improving infrastructural deficiencies."

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Federal Revenue Projections

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[1](#)3. (U) Projected revenues are slightly higher than reported in reftel because the naira has strengthened against the dollar. An estimated gross consolidated revenue of \$38.80 billion ((4.539 trillion naira - at 117 naira to one dollar) will accrue to the federation account for distribution to the three tiers of government

- federal, state and local. The GON's appropriation will be \$18.34 billion (2.146 trillion naira) from which \$16.63 billion (1.946 trillion naira) is available after first charge deductions are made for Derivation and Ecology Fund (38 billion naira), Stabilization Fund (19 billion naira), Development of Natural resources (63 billion naira), and the Federal Capital Territory (41 billion naira).

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Revenue Sources

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14. (U) Oil (crude oil sales, petroleum profits tax, royalties and rent) represent 80% of all revenues at \$31.02 billion (3.629 trillion naira) and after figuring in existing commitments to Joint Venture Cash Calls of \$4.97 billion. The GON estimates that crude oil sales revenue at \$20.04 billion (2.345 trillion naira); an increase of 47% over 2007 due to the 35% increase in the oil price benchmark from \$40 to \$53.83 at crude oil production level of 2.45 MBPD. The 2008 budget projects a Petroleum Profits Tax of \$10.96 billion (1.282 trillion naira), a decrease of 39%; and royalties are expected to account for \$4.6 billion (583 billion naira). Non-oil represents 20% of revenues and is estimated at \$7.78 billion (910 billion naira) - comprised of Company Income Tax (349 billion naira), Value Added Tax (310 billion naira), and Custom and Excise Duties (251 billion naira).

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Priority Sectors

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15. (U) The federal government has identified security and the Niger Delta, education, food security and power as four priority sectors consisting of 60% of capital spending in the 2008 budget. Though

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projected spending by ministries, departments and agencies (MDAs) rose by just 0.1 percent, the priority sectors received significantly higher allocations in the budget. Budgetary allocations to these priority sectors are:
-- Security and the Niger Delta - \$3.8 billion (444.6 billion naira) 20% of the total budget, and an increase of 6.5% over 2007;
-- Education - \$1.79 billion (210 billion naira), 13% of total budget, and a 12% increase from 2007;
-- Energy sector - \$1.20 billion (139.78 billion naira), excluding expenditure on Independent Power Projects (IPP) which has alternative funding arrangements mainly from the private sector; and

-- Agriculture and Water Resources - \$1.04 billion (121.1 billion naira), and 7% of total budget.

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Budget 2008 Parameters

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16. (U) Budget 2008 parameters remained the same as reported in reftel C except for changes in the crude oil production which increased to 2.45 MBPD, Joint Venture Cash Calls of \$4.97 billion, and GDP growth target which increased from 10% to 11%. The budget parameters are:
-- Crude oil benchmark price of \$53.83 per barrel, up from \$40 per barrel.
-- Crude oil production of 2.45 mbpd, similar to 2.5 mbpd in 2007, no significant change. (NOTE: It is estimated that Joint Venture production contributes 1.55 MBPD to the budget. END NOTE)
-- Joint venture cash calls of \$4.97 billion, up from \$4.5 billion.
-- GDP growth of 11%, up from 10%.
-- Inflation rate at 8.5%, down from 9%.
-- Exchange rate of 117 naira to \$1, down from 127 naira, a significant change
-- Value added tax (VAT) rate of 5%.

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Federal Expenditure Projections

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¶17. (U) For 2008 GON aggregate expenditure is \$21.11 billion (2.47 trillion naira) composed of:

- Recurrent (non-debt) expenditure including payroll and overhead of \$8.95 billion (1.047 trillion naira), 55% of total spending;
- Capital expenditure of \$5.42 (634.2 billion naira), 30% of total spending;
- Statutory transfers of \$1.6 billion (187.6 billion naira); and
- Debt service of \$3.18 billion (372.3 billion naira).

President Yar'adua explained the low utilization of the capital budget of 781 billion naira in 2007 accounted for its reduction to 634.2 billion naira in the 2008 budget.

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Statutory Transfers

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¶18. (U) Total estimated statutory transfers in the budget are \$1.6 billion (187.6 billion naira), 46% increase from 2007, consisting of:

- \$666.66 million (78 billion naira) to the National Judicial Council, an 81% increase.
- \$597.44 million (69.9 billion naira) to the Niger Delta Development Commission, a 300% increase.
- \$339.32 million (39.7 billion naira) to the Universal Basic Education Commission, a 12% increase.

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Debt Service

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¶19. (U) At the end of June 2007 the total debt stock was \$20.88 billion (2.44 trillion naira), comprising domestic debt of \$17.53 billion (2.05 trillion naira), and external debt of \$ 3.35 billion (391.95 billion naira). Projected debt service is lower than reported in refetel C, and is \$3.25 billion (372.2 billion naira), a 25% increase over 2007. The debt service consists of \$2.41 billion (306.2 billion naira) for domestic debts, \$472.44 million (40 billion naira) for liquidity management, and \$519.69 million (66 billion naira) for foreign debt service. Nigeria's total indebtedness as a percentage of GDP is presently 10.4%.

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Deficit Financing

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¶10. (SBU) Based on a federal expenditure projected as \$21.11 billion, (2.47 trillion naira), the projected budget deficit is \$4.79 billion (560 billion naira), 2.5% of GDP. The projected deficit will be financed from \$1.03 billion (120 billion naira) expected from the sale of federal government properties; \$641.03 million (75 billion naira) from privatization proceeds and signature bonuses; and \$1.71 billion (200 billion naira) from the domestic bond market. (COMMENT: The 2008 budget announcement did not state the source of \$1.41 billion (165 billion naira) needed to finance the remaining 30% of the projected deficit. END COMMENT)

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Millennium Development Goals

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¶11. (U) Consistent with the GON's commitment under the Paris Club Debt settlement and towards meeting the Millennium Development Goals (MDGs), the budget will allocate \$94.02 million (110 billion naira) of debt relief savings for support to and scale-up spending on MDG-related initiatives and programs. The budget allocates \$50.69 million (59.3 billion naira) to states as conditional grants for targeted and result oriented programs in "education, agriculture, water resources, power and social safety nets."

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Excess Crude Account

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¶12. (U) The National Economic Council (NEC) has approved the Presidential Committee on the Excess Crude Account (ECA) recommendation that from 2008, any balance in ECA above \$7.87 billion (1 trillion naira) be shared by the 3-tiers of government in the following year. (NOTE: The NEC is chaired by the Vice-President and includes all the thirty-six state governors, the governor of the CBN, ministers of finance and national planning. END NOTE). A total \$3.60 billion programmed sharing from the ECA is expected in ¶2008.

--\$1.65 billion (209 billion naira) to the Federal Government;
--\$834.65 million (106 billion naira) to states;
--\$645.67 million (82 billion naira) to local government authorities;
--\$464.57 million (59 billion naira) as derivation funds for oil producing states.

Private Sector and National Assembly Scrutiny

¶13. (U) Businesses and investors have expressed concern with the increased deficit financing, the national debt stock and their combined effects on inflation and interest rates; and how monetary policy respond to support fiscal policies in 2008. It is expected the National Assembly would subject the 2008 Budget to much greater scrutiny than in past years. President Yar'adua also announced his assent to the Fiscal Responsibility Bill and the commitment of state governments.

¶14. (SBU) The crude oil benchmark price in the budget has caused outcry's from National Assembly representatives that it is too low and it may need to be revised. Based on past performance the oil MBPD production target seems extremely optimistic and contradicts the administration's promise not to over-estimate of crude oil production and continue previously poor forecasting of oil revenues.

Comment

¶15. (SBU) The previous administration's budget unveilings proved to be mere ritual, because implementation fell short of targets and capital budgets were hardly ever implemented satisfactorily. The 2008 budget is a little less ambitious in capital projects for development than in 2007, however the new administration has promised to implement the capital budget fully. If the capital budget is fully implemented, Nigeria's decaying infrastructure may get some relief. Repairing roads, new construction, and increased power supply, can remove some of the barriers to doing business in Nigeria, boost foreign investment and encourage growth in the non-oil sector.

¶16. (SBU) The 2008 budget 2008 places a heavy burden on revenue

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from oil since it constitutes 82% of government revenue. The other 18% comes from Value Added Tax (VAT) 6%, custom duties 5%, and company income tax (CIT) 7%. President Yar'adua's plans "to reverse these ratios" and diversify Nigeria's revenue base away from over-reliance on crude oil earnings will be difficult to achieve in the short-term, and only possible in the long-term if Nigerian tax system is reformed.

¶17. (SBU) The greater allocation to the Niger delta is commendable. Nigeria has experienced huge revenue shortfalls in the past due to lower crude oil production from instability in the Delta. In 2008 there will be a shift of production to offshore oilfields with reduced revenue to the GON under the production sharing contracts (PSC). It is unclear from the budget precisely which funds will be allocated for security and development.

¶18. (SBU) President Yar'adua's commitment in the budget to continue with macroeconomic and budgetary reforms and his promise of predictable policy is a positive development. The GDP growth target of 11% will require politically tough and pragmatic economic

reforms. It is unclear whether President Yar'adua and his cabinet will be willing to take all the steps necessary to ensure such a high growth rate especially considering rollbacks of other related initiatives in the past six months (reftels A & B).

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